MEETING SUMMARY NOTES

Finance Work Group

April 16, 2003
3:30 p.m., Room 113, County-City Bldg.

MEMBERS: Present - Brad Korell, Keith Brown, Ron Ecklund, Mark Hesser, Dan Marvin, Richard Meginnis, Bob Hampton, Connie Jensen, Polly McMullen, Roger Severin, Tom Schleich, Tim Thietje, Larry Zink, Allan Abbott (nonvoting)
Absent - Lowell Berg, Jim Budde, Kent Seacrest, Terry Werner, Otis Young

OTHERS: Kent Morgan, Lauren Wismer, Ben Higgins, Nicole Fleck-Tooze, Roger Figard, Randy Hoskins, Don Herz, Margaret Remmenga, Steve Masters, Margaret Blatchford, Hallie Salem, Michele Abendroth

AGENDA ITEMS DISCUSSION:

1. Welcome - Brad Korell, Work Group Chair

Mr. Korell called the meeting to order at 3:34 p.m. and welcomed those present.

2. Meeting Notes of April 2nd and April 8th

Mr. Korell asked if there were any changes to the "Meeting Summary Notes" from the April 2nd and April 8th meetings. None were suggested.

3. Public Comment Period

Mr. Korell asked if there were members of the public present who would like to address the Work Group at this time. There were none.

4. Street and Highway Funding Sources and Financing Options - Bill Giovanni and Don Herz

Mr. Korell reminded the work group that there will only be one more meeting after today's meeting and thanked the members for all their work.

Mr. Morgan briefly explained the income stream calculations for the incremental increase in wheel tax, which is a calculation of the wheel tax income with three $5 increases in the first, fourth and seventh years. The occupation tax revenue stream calculation was based on a 5 cent per gallon increase. Calculations were also made using the funding sources proposed by the work group including the G.O. bond, the wheel tax increase and the occupation fuel tax.

Mr. Herz explained that they arrived at a figure of $91.5 million as the amount of G.O. bond proceeds which are needed in order for the gap at the end of 12 years to go to zero. They believe that they can use the proceeds from the bond issuance and pay projects for four years. So they took $91.5 in bond proceeds and plugged those numbers into the first four years and part of the fifth year to cover the gap for those first four years. During years five and six, there is still a gap, but they would have the opportunity to issue highway allocation bonds and use the surplus from a few years down the road to solve for that. The impact would be 7.37 cents per $100 valuation on a 12 year bond. On a 20 year bond, the impact would be 5.35 cents per $100 valuation.

Mr. Marvin questioned what impact it would have if the property valuations increased by 18%. Mr. Herz stated that they have already taken that in to consideration.

Mr. Giovanni stated that they calculated $91.5 million in bond proceeds, a $5 increase in the wheel tax in years 1, 4 & 7, and a one-time increase of 5 cents in the occupation fuel tax. Bond proceeds will fund the gap in the first four years. The conclusion is that, per the assumptions, a $91.5 million bond issue along with the two additional revenue sources will solve the gap. He stated that they ran a 12 year and 20 year amortization. The life of roads is longer than 12 years, but at the end of 12 years, the debt is retired. But if you want to tie the amortization of the debt to match more closely with the economic useful life of the asset, they ran the 20 year schedule. He noted that they are not advocating one over the other, but provided this information for their consideration.

Mr. Abbott asked Mr. Giovanni if there was a reason why he issued the bonds all at once. Mr. Giovanni replied that you make that decision based on market conditions. Also, it is obvious that the needs are front end loaded.

Mr. Hesser asked if you can have an election that authorizes issuance over a future period of time. Mr. Giovanni stated that you have six years from the date of authorization, and each series of bonds would have to be approved by the City Council.

Mr. Korell asked Mr. Giovanni if he had any recommendations for the Work Group regarding a 12 year and a 20 year amortization. Mr. Giovanni stated that he believes that Omaha has used bonds with a 10 year amortization. He said that it makes good financial and political sense. Mr. Wismer asked what impact increased valuations would have on this analysis. Mr. Giovanni stated that it is already built in. Mr. Wismer then stated that as that goes on, you would expect that valuations would increase on an annual basis, and asked if that would reduce the levy on an annual basis. Mr. Giovanni replied that is correct.

Mr. Korell asked Mr. Abbott to explain the reason for the zero dollar figure in year 10 for *remaining baseline projects*. Mr. Abbott stated that they answered the question that was asked which was, what do they need to build to make the first 12 years happen. This finishes the requirements that are needed for the first 12 year block. It does not take into account the streets that are needed beyond year 13.

Mr. Zink asked if the calculations include the list of deferred projects in the white area. Mr. Abbott stated that they are not funded, as this was made with the assumption that everything recommended by the Cost Savings and Efficiency Work Group was accepted.

Mr. Brown stated that he would make an economic argument for a longer term bond to spread the cost over a wider range of people who will receive the benefit. Mr. Marvin noted that if the population grows at 1.5% per year, there will be more people here 20 years from now, which means that each person's portion of the debt will be smaller, if you use a longer term bond.

Mr. Abbott asked if this is saying that you can issue the G.O. Bond and take care of the first four years of problems, and even if you do not get the wheel tax and gas tax passed, the problem begins in year five. Mr. Giovanni stated that the answer is no, because in the first year, we are relying on $5.5 million from wheel tax and gas tax revenues. If you did not have those, you would need another $5.5 million in proceeds from G.O. bonds in year one, and in years 2 and 3, it would be $8 million and in year 4, it would be $9.5 million.

Mr. Hampton asked if this spreadsheet could be figured using a 20 year amortization. Mr. Ecklund stated that the spreadsheet would not change because the bond repayment is out of the general fund.

Mr. Korell thanked Mr. Giovanni for his work. He then asked if the group wanted a 12 year amortization or a 20 year amortization. Mr. Hesser asked if this assumes that voter approval is not a problem. Mr. Korell stated that the financial and political factors must be considered. Consensus was reached among the work group members present in favor of the 20 year amortization.

5. <u>Street and Highway Finance Recommendations Report - Brad Korell</u>

Discussion then centered on the draft report of the Finance Work Group. Mr. Korell asked Mr. Abbott why the gap is biggest in the first 6 years. Mr. Abbott stated that there are projects that need to be built regardless of whether or not the city grows any more. He said they are also trying to get into areas that they want to have open in years four through nine. Mr. Korell questioned what the magnitude of the problem would be if we did not do the bypass or the Antelope Valley project. Mr. Abbott stated that the community has indicated that these projects are needed for the vitality of the existing City and so that the City can grow. He noted that the total amount needed for these projects would not become available. He added that we are trying to get to a point where it is ready when needed as opposed to five years after it is needed. Mr. Hesser asked if it is fair to say that the baseline projects create the most gap. Mr. Abbott replied that it is not. He stated that he tried to separate those projects that are needed, which is identified as approximately $90 million, and those that will get us a half step ahead, which is $153 million.

Mr. Korell asked Mr. Abbott how he would explain why we needed $90 million in G.O. bonds.

Mr. Abbott stated that a lot of it is how it is packaged, and it should be stated that this money is needed for projects now as opposed to future development. Mr. Thietje stated that he feels that it is important to state in the report how the work group came to these conclusions. Mr. Hampton noted that the first draft of the report written by Mr. Morgan was very well written. He added that we need to balance the built environment and solve for the deficiencies in the streets, and maybe add sidewalks, which is a nagging problem. Mr. Zink echoed what Mr. Hampton stated relative to sidewalks. Mr. Abbott stated that there is about a $9 million backlog on sidewalks, and the Mayor has indicated that they have a half million dollars in the budget, which would be $3 million over the next six years, leaving $6 million. Mr. Severin stated that we need to make this as attractive as possible to people. Mr. Brown stated that an integral part of this is the marketing. The more things that you can wrap in this that are marketable tools, the better it will be. He added that people need to understand that right now their property tax dollars do not support any street projects, and he feels that it is important to state that in the report. He also suggested that two or three people from this work group need to be part of the marketing task force, so that there is continuity between the groups. Ms. McMullen suggested making a recommendation to the committee to have a public education plan in conjunction with the release of this report. Mr. Hampton stated that he would second a motion to have $6 million put towards sidewalks. Mr. Marvin asked Mr. Wismer for his recommendation regarding being specific on the G.O. bond. Mr. Wismer stated that he felt it should be kept as general as possible.

Mr. Korell stated that he feels that sidewalks should be put in a separate document so as not to confuse it with streets. Mr. Brown stated that he does not agree. Mr. Korell then asked the group if they felt it should be included with streets. There was consensus reached that it should be included with streets.

Mr. Zink proposed verbiage to indicate that residential streets should be on a 30 year replacement cycle as opposed to a 40 year cycle and a 15 year cycle for arterials as opposed to 25 years. Mr. Abbott stated that they are currently working on a system with criteria identified which would determine when streets should be replaced. Ms. Jensen asked Mr. Zink if he feels the neighborhood associations would be comfortable with the rating system. Mr. Zink stated that he did not think they would be comfortable with that as they want to have numbers to indicate that the City is serious about this issue. Mr. Korell then asked the group if they supported these numbers proposed by Mr. Zink. Upon calling for a vote, the group did not support this recommendation.

Mr. Hesser moved to add $2.5 million in year 2 and $2.5 million in year 3 for street rehabilitation. Ms. Jensen seconded the motion. All members in attendance were in agreement with this recommendation.

Mr. Thietje stated that City staff has worked hard to categorize the data in a meaningful way and recommended that they continue to do so.

Mr. Zink asked that a sentence be added in regard to highway allocation bonds as follows:

Because highway allocation bonds obligate the full faith and credit of the City without a vote of the citizens, they should not be issued in amounts beyond which can be prudent to be expected to be retired by reliable revenue sources other than property taxes. Mr. Korell stated that philosophically, he believes that the members would agree with that.

6. <u>Stormwater Management - Nicole Fleck-Tooze</u>

Ms. Fleck-Tooze introduced herself and Ben Higgins of Public Works and Utilities. She then reviewed the list of major project types of the watershed master plan implementation. They tried to identify the major project types in new growth areas. There are four basic types. The first is flood corridor preservation, which relates to flood control and water quality. Second is stream stability projects. As there is increased urbanization, there is increased stormwater runoff, increased velocities, and you see stream channels degrading. This undermines urban infrastructure and there are significant water quality impacts. The third type is water quality wetlands which addresses water quality from the standpoint of new pollutants introduced to the system. And last is flood control projects which is more structural projects such as stormwater storage facilities and retention ponds. Ms. Fleck-Tooze stated that there is a cost difference in doing these projects up front prior to having problems.

Ms. Fleck-Tooze then reviewed the list of assumptions for 12-year financing for watershed management.

- The timing of improvements are described in relationship to the construction of the sanitary sewer trunk line.
- Stream stability projects are assumed to be constructed in the same year as the sanitary sewer line due to the physical proximity of these projects.
- Wetlands and detention/retention basins are assumed to be constructed the year after construction of the sanitary sewer line.
- Flood corridor preservation is assumed to be acquired one year in advance of sanitary sewer construction with the thought that it would be acquired in conjunction with right-of-way acquisition for that sanitary sewer line.
- Stream crossing improvements are assumed to be completed with road improvements and funded through street construction.
- Engineering costs are assumed to be 10% of construction costs.
- There are three different revenue sources with assumptions. The first assumption is that the existing level of funding through the general fund continues. They have also identified that there is an existing level of revenue that is incoming through general obligation bonds. The third item is related to stormwater utility, but they have assumed no funding from that source as it has not been passed.
- The City works closely with the Lower Platte South Natural Resources District to implement watershed master plans, and they have identified a cost-share of $380,000 annually.
- No inflation is assumed.
- They have assumed an annual increase of 1.3% for operation and maintenance.

- Storm drain improvements in the existing urban area traditionally funded through general obligation bond issues are assumed to be completed at the rate allowed by the current level of funding through G.O. bonds passed by voters every other year.
- Watershed management improvement needs are identified through a master planning process that is conducted basin by basin. Watershed management improvements needed in watersheds not yet master-planned are assumed to cost $1 million per square mile.
- Lincoln has stormwater quality projects and program requirements embodied in the federal water quality (NPDES) stormwater permit issued to the city by the Nebraska Department of Environmental Quality. The 12-year funding identified for watershed management does not take into account future requirements of a projected third phase to be considered in the 2010-2014 time period.

Ms. Fleck-Tooze then went on to provide an overview of the stormwater utility concept. She stated that a stormwater utility fund is an enterprise fund much like water or wastewater, and in this case, it is supported by service charges to develop, operate and maintain a stormwater system. The user fee is based on the amount of impervious surface area of a particular property. The funding sources currently used in Lincoln are G.O. bonds for capital improvements and the general fund for operation and maintenance. The current funding method charges the cost to taxpayers through property and sales tax. Charges are not distributed in a way that is proportionate to the impacts of each property on the stormwater system. The stormwater utility funds both stormwater management operating programs and capital improvements. Stormwater projects often take years to complete and require long-term planning and funding. A user fee-funded utility can budget programs and projects based on a realistic and dependable revenue stream and well-planned schedule and master plan. Today, 38 states have enabling legislation for stormwater utilities, and over 400 stormwater utilities have been established nationwide.

Within the state of Nebraska, there is a proposed bill to provide for enabling legislative for stormwater utilities. That bill is permissive legislation only. The bill allows for the creation of stormwater utilities for cities or counties subject to NPDES permit requirements or counties or Natural Resource Districts encompassing cities with such requirements. The bill includes language providing for credits for stormwater best management practices on individual sites that improve water quality or flood control. The bill is a priority bill of the Natural Resources Committee. It was placed on general file with amendments on March 14, 2003 and has not yet been heard on the floor.

Mr. Marvin questioned the $1 million per square mile figure. Mr. Severin stated that in a developed watershed, that seems accurate. He added that the NPDES requirements for stormsewers is the same legislation that required it for wastewater. The difference is that the feds funded the wastewater, but are not funding the stormwater.

Mr. Higgins noted that it is important to remember that in Beal Slough, even if spending $15 million, you will never get it back the way it was originally.

Mr. Zink questioned if the watersheds that do not have a plan done on are in the spreadsheet based on that per square mile estimate. Ms. Fleck-Tooze stated that there are new growth areas that have not had plans completed, so there is no money to deal with those projects. Mr. Higgins stated there is money to deal with the underground infrastructure in the existing urban area, but there is not money put in major projects. Ms. Fleck-Tooze noted that their intention for the master plan is to not only do master planning for the new growth areas but also for the existing urban area, and then eventually tie that all that in to one master plan for the City. Part of the challenge is that it is more economical to get out ahead of development. Mr. Zink added that it seems there is a significant gap when looking at dollars needed to deal with problems in existing areas.

Ms. Fleck-Tooze continued by reviewing the spreadsheet on Category 5 for watershed management. Total funding is $55 million; total funding without G.O. bonds is $19 million. Under uses, they have identified existing urban areas of stormwater bond projects, miscellaneous improvements and studies, and Beal Sough master plan projects. New growth areas include watershed master plan, southeast Upper Salt Creek master plan projects, and tier 1, priority A master plan projects. Total costs are $68 million, and the gap is $12 million; the total gap without G.O. bonds is $48 million.

Mr. Schleich asked if it assumes no fees. Ms. Fleck-Tooze replied that is correct. Mr. Abbott added that another assumption is that general fund levels would remain at the same level.

Mr. Ecklund questioned if the NRDs have responsibility for water quality and quantity. Ms. Fleck-Tooze stated that they do have responsibility, but it is the responsibility of the urban communities that have the burden of the federal requirements.

Mr. Zink asked if there is a rough estimate for problems in the existing urban areas. Ms. Fleck-Tooze stated that it depends on the assumptions and have far you are going to go in correcting the problem. She added that they could try to identify estimated costs from past studies.

Mr. Marvin inquired about the status on creating a stormwater utility district. Ms. Fleck-Tooze replied that the Natural Resources Committee voted it out of committee, but it has not been heard on the floor. Mr. Korell stated that it is in trouble as the wording has been deemed too broad.

Mr. Ecklund questioned meaning of the property tax column on the *Annual Cost Comparison Examples* table. Mr. Higgins stated that figure is the portion of the property tax dedicated to the stormsewer. Mr. Korell asked Ms. Fleck-Tooze to phone Mr. Ecklund to review these numbers.

7. Other Business

Mr. Korell stated that stormwater management will be on the agenda for next week's meeting on April 23rd, which will be the last meeting of the Finance Work Group.

8. Adjournment

Mr. Korell adjourned the meeting at 5:33 p.m.